



CHARITABLE GAMING IN VIRGINIA

1999 Annual Report
Virginia Charitable Gaming Commission

Charitable Gaming Commission Members



Vice Chairman Harold D. Slemp
Marion
Term Expires 6-30-2003



Commissioner Nancy B. Pfeiffer
Cumberland
Term Expires 6-30-2001



Chairman Edward J. Fuhr
Henrico County
Term Expires 6-30-2002



Commissioner Herbert C. Clay
Marion
Term Expires 6-30-2001



Commissioner Brian L. Bock
Norfolk
Term Expires 6-30-2003



Commissioner Jan W. Stem
Glen Allen
Term Expires 6-30-2002



Commissioner Kelly R. Young
Arlington
Term Expires 6-30-2003

Agency Mission Statement

To enforce the charitable gambling laws of the Commonwealth and prescribe regulations so as to enhance the integrity of the activities, provide for even regulation, and maintain the highest quality charitable gambling environment free of corrupt, dishonest or unprincipled practices so as to increase the financial gain of bona fide charities.

TO THE GOVERNOR AND MEMBERS OF THE GENERAL ASSEMBLY:

The Charitable Gaming Commission has completed its third full gaming year as the statewide agency responsible for the licensing and regulation of bingo, raffles, and pull-tab gambling in Virginia. It is time to take stock of how the agency has handled the responsibilities given it.

In 1993, the General Assembly passed Senate Joint Resolution No. 195 calling for a joint legislative study committee to examine charitable gaming in the Commonwealth. This resolution expressed two major concerns. The first was the small percentage of money from charitable gaming actually going to charitable activities, in some localities 2 percent or less. The second was the high level of fraud, embezzlement, and theft that had come to light in organizations conducting charitable gaming and the very few local enforcement actions taken.

The study committee, after a thorough two-year examination of charitable gaming in the Commonwealth, confirmed that these two problems were indeed of serious concern. The study committee's finding that local regulation of charitable gaming had proven to be inadequate and ineffective led to the creation of the Charitable Gaming Commission at the 1995 General Assembly session. A very unique form of commission was established. The Commission was structured and charged with being an executive, law enforcement and regulatory agency. Even more remarkably, it was to be supervised by seven citizen Commissioners appointed by the Governor. They were charged with enforcement of the new statutory code, the regulation of a nearly \$300 million industry, and yet perform these obligations in a part time manner without compensation. Operations began on July 1, 1996.

Because of the two primary concerns that resulted in its formation, the Commission has had two major goals since its inception. The first is to increase the amount of gaming funds contributed to charitable purposes and the second is to ensure the integrity and honesty of charitable gaming by seeing that it stays as free as possible from fraud, theft, and embezzlement. While attempting to achieve these goals, the Commission has sought to regulate charitable organizations in the least burdensome manner possible. During the short history of the Commission, there have been some noteworthy accomplishments.

First, there has been a surge in the amount of money now making its way to charity. In 1996, the amount was \$22.7 million from non-exempt organizations, out of total gross receipts of \$208.2 million. By the close of 1999, the charitable gaming proceeds used for charitable purposes had grown to \$38.1 million, out of total gross receipts of \$286.0 million, an increase of 67.8 percent in just three years.

The increase in percentage terms is even more dramatic. As a percentage of the gross receipts, the use of proceeds for charity has increased from approximately 2% before the Commission was established to 10.9% in 1996 to 13.3% in 1999. Where Virginia was once one of the lowest percentage contributors in the nation, it now is a leader.

When added to the \$10.6 million of gaming proceeds used for charitable purposes by exempt organizations (volunteer fire departments and rescue squads) reported in 1999, the total amount contributed to charitable uses from charitable gaming now stands at a record \$48.7 million.

But this is only part of the story. Since its beginning, the Commission's special agents have investigated literally hundreds of allegations of criminal fraud, theft, and embezzlement of charitable gaming funds totaling over \$7 million. In 1999 several cases brought by the special agents were completed, with eight individuals convicted of various charges involving illegal charitable gaming activities. During 1999, more cases involving the diversion of charitable gaming funds came to the attention of our special agents and are currently pending or are being investigated. Since the inception of the Commission, twenty-seven individuals have been convicted. Problems with fraud, theft, and embezzlement have not disappeared. Continued vigilance will be necessary to ensure the honesty and integrity of charitable gaming. Maintenance of an adequate vigil will require resources, attention and widespread support.

Charitable gaming is big business in Virginia. It is all cash. Until recently, no records were required. The industry now stands at over \$300 million. It consists of more than 94 games grossing more than \$1 million per year, with 3 games grossing more than \$3 million, and the largest game grossing \$6,080,976. In some areas, the prevalence of big games is stunning. For example, the 3 largest games in Virginia, grossing respectively, \$6,080,976, \$3,437,274 and \$3,338,835, are located in the Winchester, VA area.

Virginia's games, even many of its largest games, are to be commended for the dramatic steps they have taken to bring important controls to their games and the efforts they have made to increase the amount of money they contribute to charitable purposes. The Commission needs to remain watchful over developments that could impact the ability of these hundreds of honest games in meeting their charitable obligations, whether it be the increasing use of electronic devices that seem to impact negatively many games, excessive rents or other factors.

In short, in many respects 1999 was a successful year for the commission with respect to its core mission. Nevertheless any candid assessment of the Commission cannot ignore that at least in some regions of the Commonwealth there is a deep resentment of the Commission's role in regulating charitable gaming and that for a few Virginians this is a single issue about which they care more than any other. It is a resentment that affects the public debate and threatens periodically, especially when unchecked, to undermine the commission's ability to perform its most critical mission, much less maintain or improve the commission's accomplishments identified above. This is so especially given the more amorphous but numerous beneficiaries of statewide regulation, who now are able to rely on a greater source of charitable contributions from their local civic, fraternal and other organizations.

The year ahead will be a critical year for the Commission.

Sincerely,



Edward J. Fuhr
Chairman

How does the Commission oversee the charitable gaming in the Commonwealth?

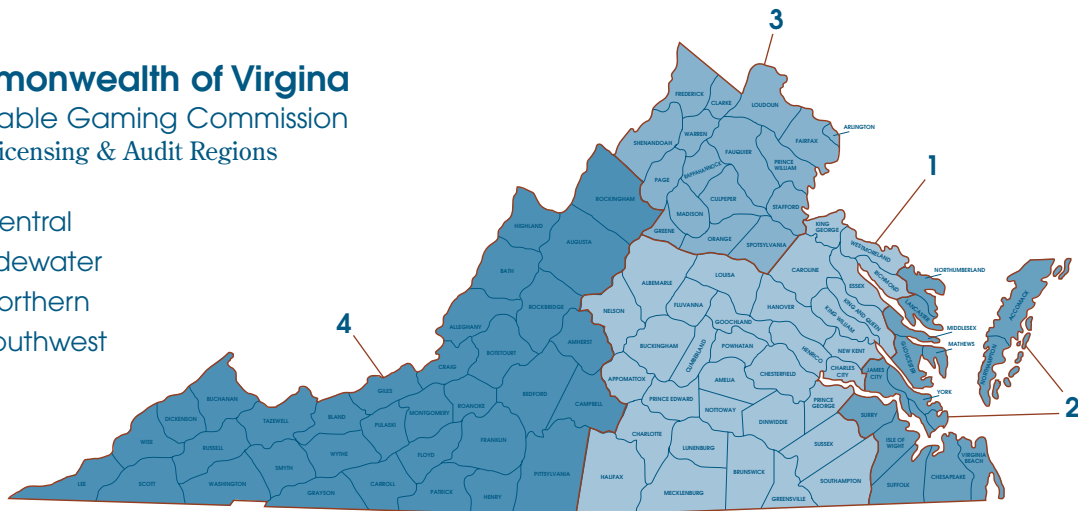
The Virginia Charitable Gaming Commission has divided the state into four regions for administrative purposes. Each section has approximately a quarter of the charitable gaming activity in the state. In each of the four regions the Commission has at least one game inspector, senior auditor, auditor, and enforcement agent.

Licensed Non-Exempt Organizations

	Region 1 Central	Region 2 Tidewater	Region 3 Northern	Region 4 Southwest	TOTALS Statewide
Fraternal	33	33	43	44	153
Veterans	30	20	33	29	112
Charitable	7	6	15	30	58
Community	29	62	17	16	124
Educational	11	6	15	30	58
Religious	11	13	14	2	40
Other	2	1	0	0	3
TOTALS	123	141	134	132	530

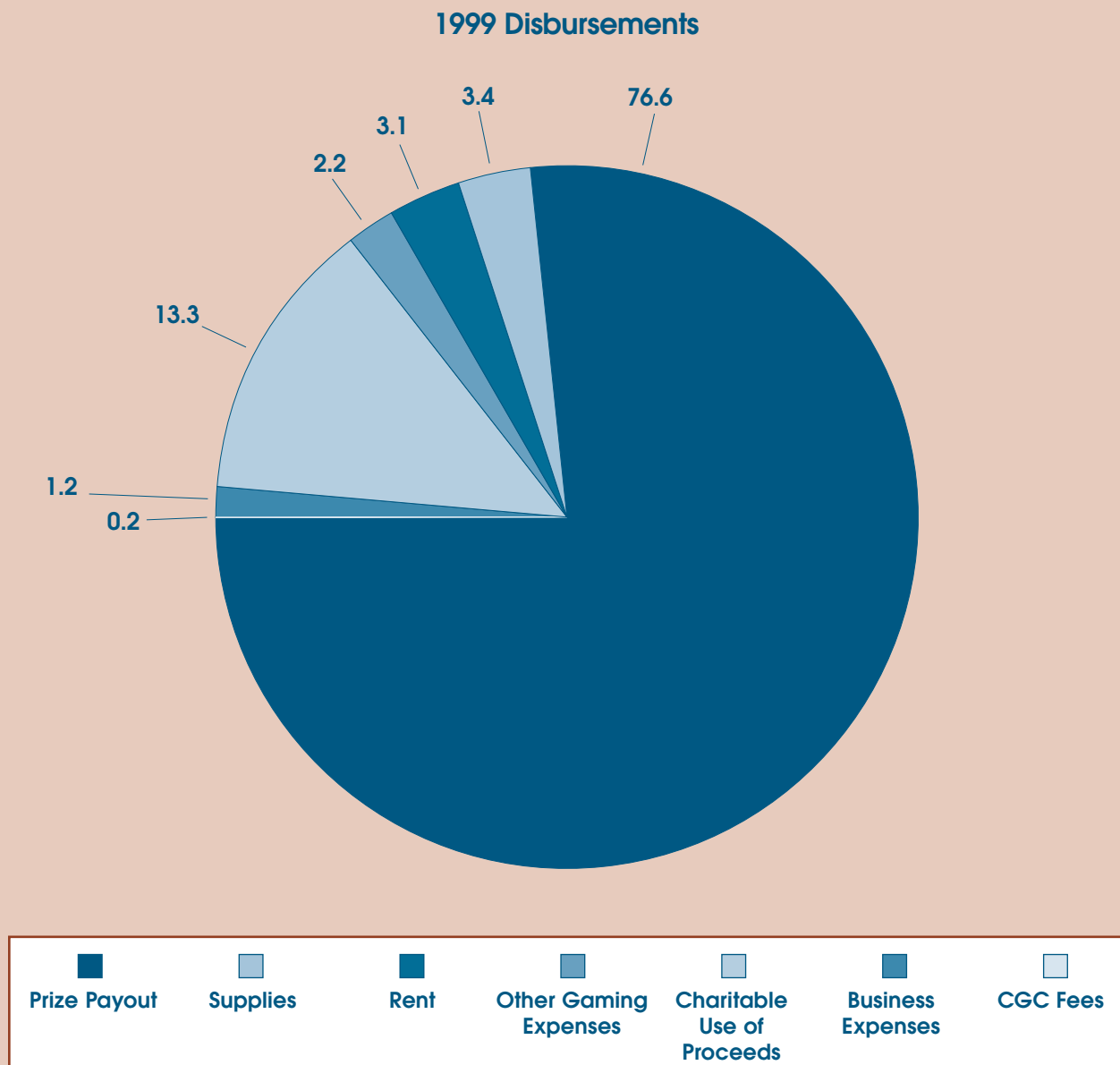
Commonwealth of Virginia Charitable Gaming Commission Licensing & Audit Regions

- 1 Central
- 2 Tidewater
- 3 Northern
- 4 Southwest



Where does each charitable gaming dollar go?

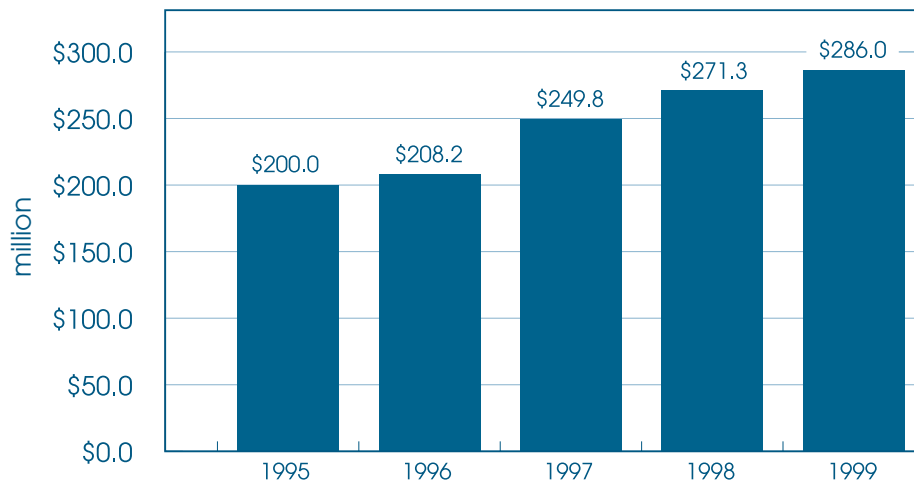
As the pie chart shows, in gaming year 1999, 76.6 cents of each dollar of gross receipts from charitable gaming went back to the participants as prizes, gaming supplies accounted for 3.4 cents, rent for bingo halls amounted to 3.1 cents, other gaming expenses, such as insurance, security for the games, janitorial costs for cleanup after the games, accounting expenses, advertising, and equipment costs, took 2.2 cents, and 2/10ths of 1 cent went to the Charitable Gaming Commission for its fees. The remaining 14.5 cents represented the profit from charitable gaming. Of this profit, 13.3 cents went to charitable uses and 1.2 cents was retained by the gaming organizations and used to pay certain non-charitable business expenses. The use of charitable gaming moneys to pay non-charitable business expenses was first authorized by the General Assembly in 1999 and became effective for the 1999 gaming year. The gaming year runs from October 1 through September 30 of each year.



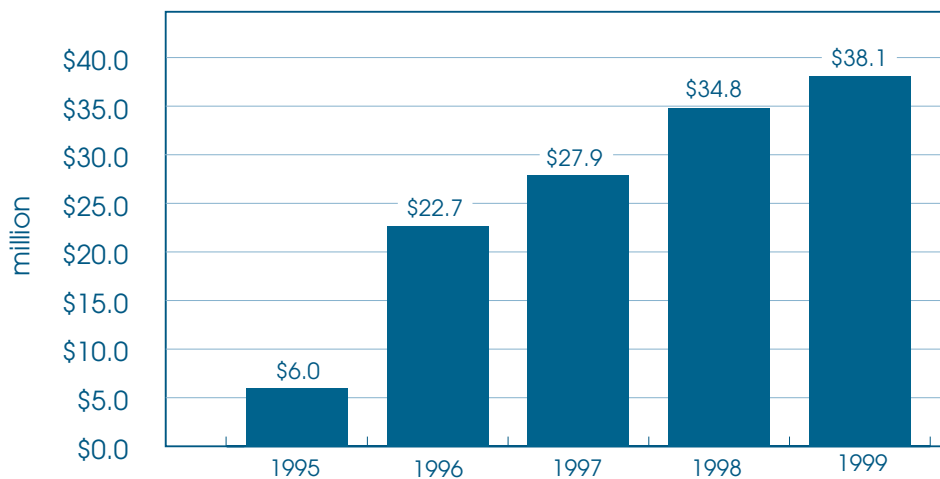
Have the funds going to charitable organizations and activities increased since the Charitable Gaming Commission began?

Since the Charitable Gaming Commission began in 1996, both the gross revenues and the amount going to charitable purposes have steadily increased. Of particular importance has been the increase in the amount of money going for charitable activities. Both the percentage of the gross revenues and the actual amount have increased significantly since the Commission assumed responsibility for the regulation of charitable gaming. The information for the non-exempt organizations is graphically illustrated below:

Gross Gaming Receipts

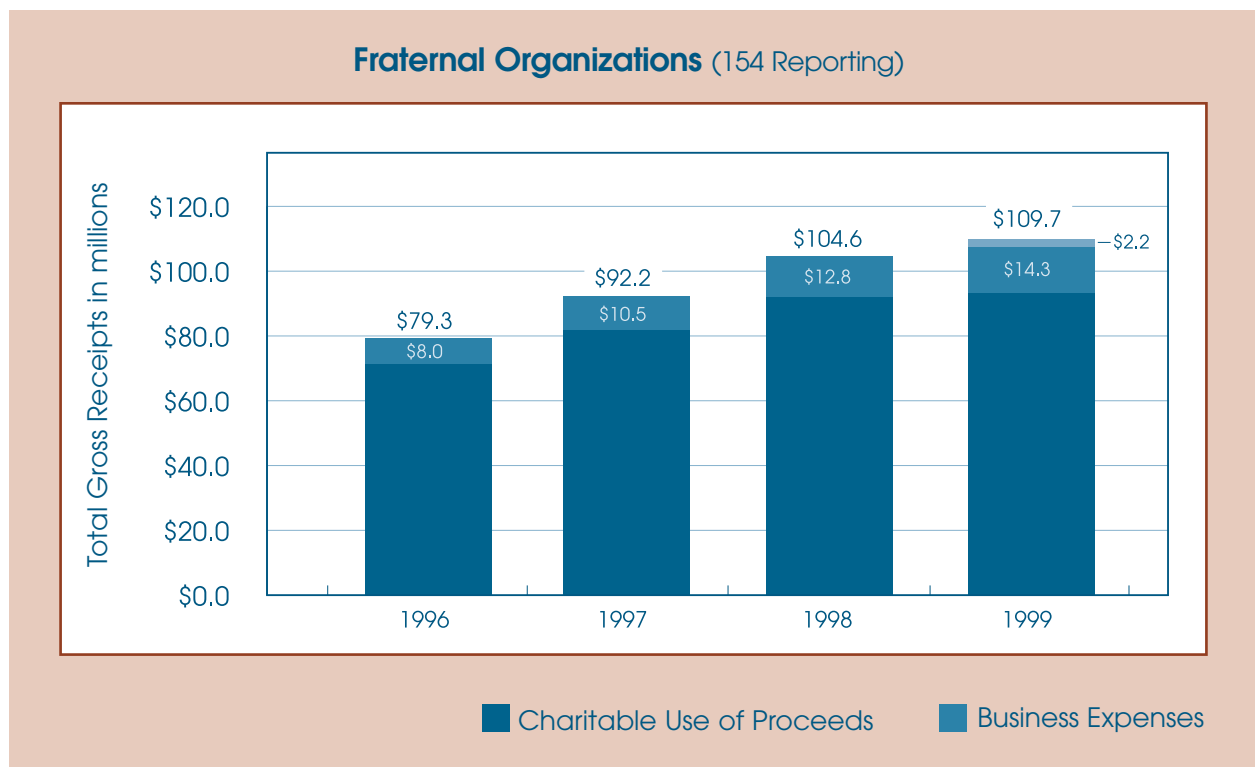


Charitable Use of Proceeds

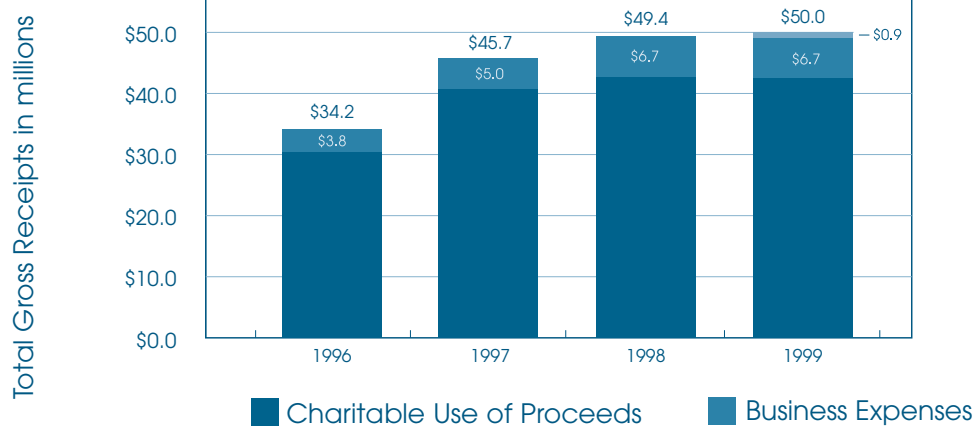


What organizations benefit from charitable gaming?

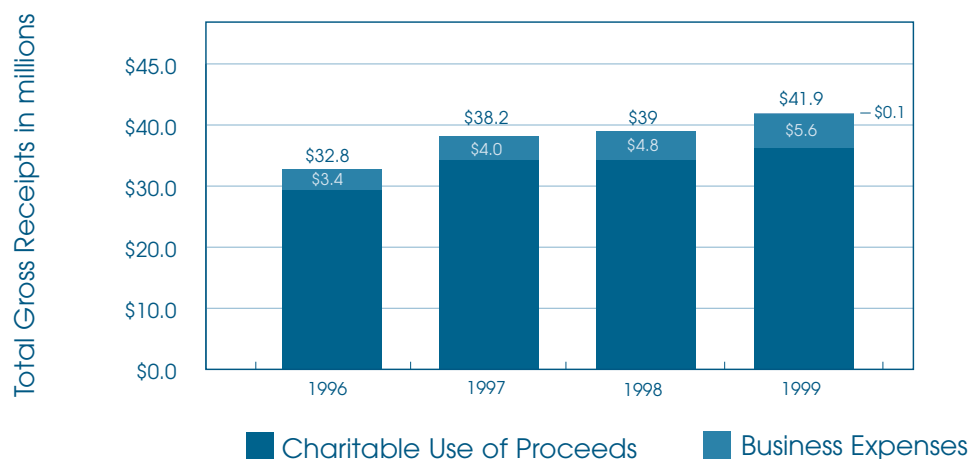
Non-profit organizations eligible to conduct charitable gaming in Virginia generally fall into six categories, fraternal organizations, such as the Elks, Moose, and Eagles, veterans groups, such as the American Legion and Veterans of Foreign Wars, religious organizations, such as churches, synagogues, and auxiliary member groups, educational organizations, such as schools and academies, band boosters, athletic team supporters, P.T.A. groups, and 4-H groups, general charitable organizations, such as the Red Cross, Salvation Army, humane societies, and childrens' homes, and community organizations, such as Rotary, Ruritan, and Kiwanis Clubs. There are also a few other non-profit organizations that are charitable in nature but do not fit within one of the other broad categories mentioned. While the different types of groups have different levels of charitable gaming activity, for the gaming year 1999 all, but one have increased both the gross receipts from charitable gaming and the amount of gaming funds used for charitable purposes over the previous year. In addition, this year, for the first time, organizations could use for certain business expenses, any money over and above the minimum amount they were required to spend for charitable purposes. Since the beginning of the Charitable Gaming Commission in 1996, there have been dramatic increases in the amount of charitable gaming funds going to charitable activities, as the following charts indicate:



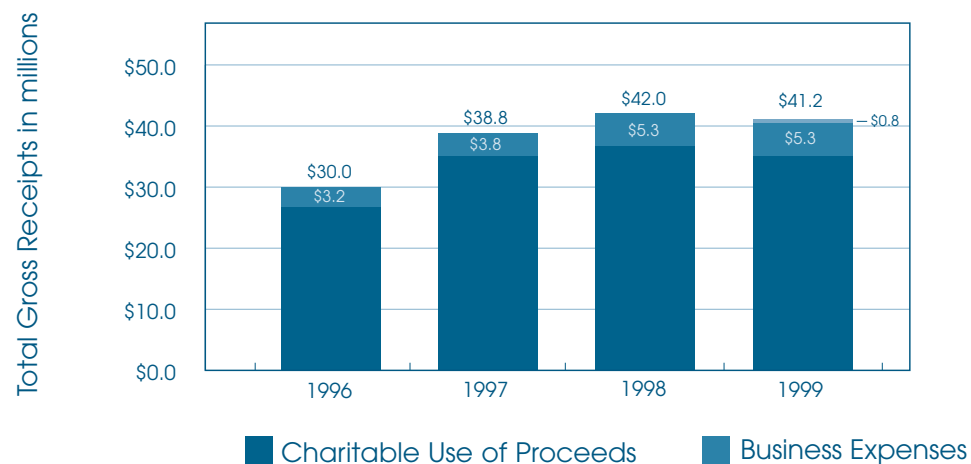
Veterans Organizations (118 Reporting)



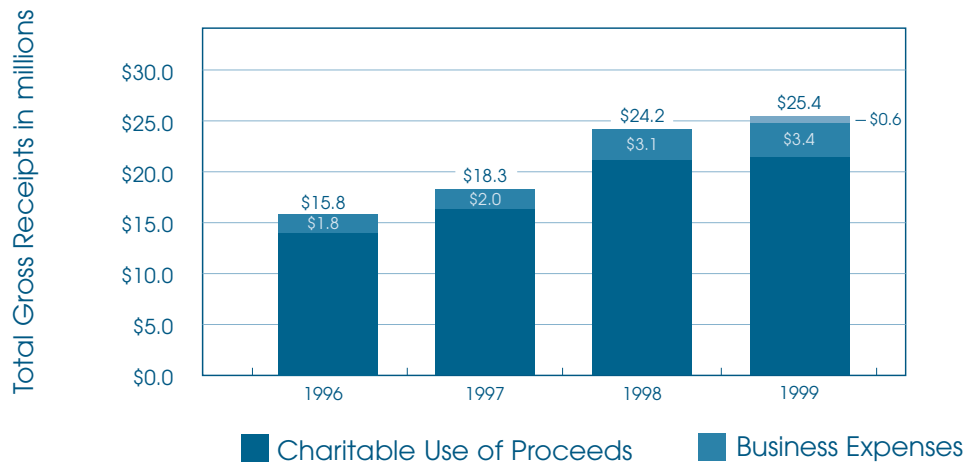
Charitable Organizations (92 Reporting)



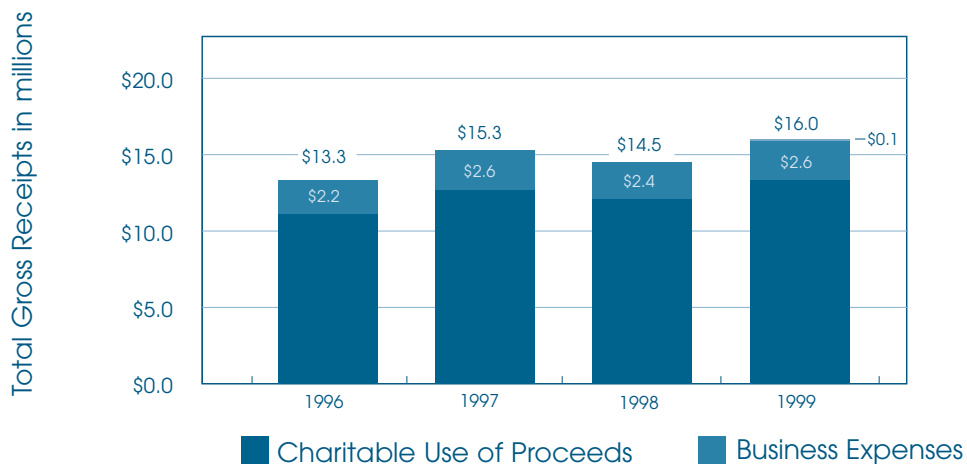
Community Organizations (87 Reporting)



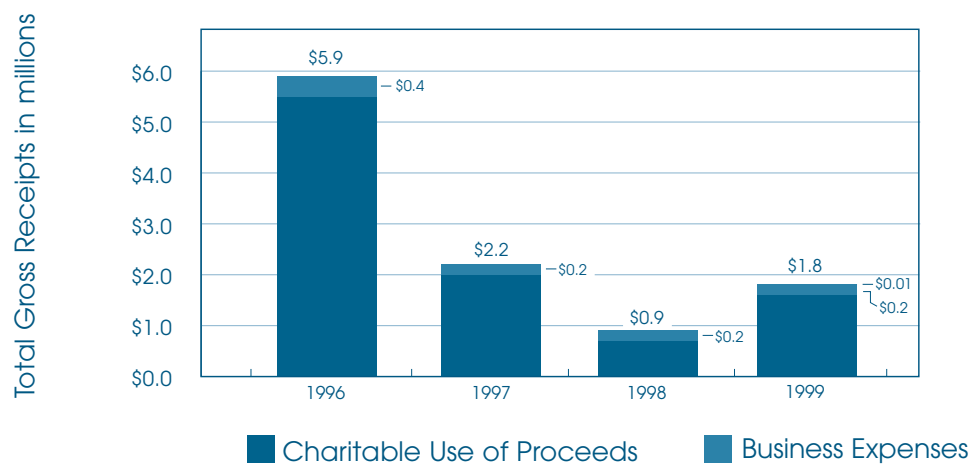
Educational Organizations (57 Reporting)



Religious Organizations (38 Reporting)



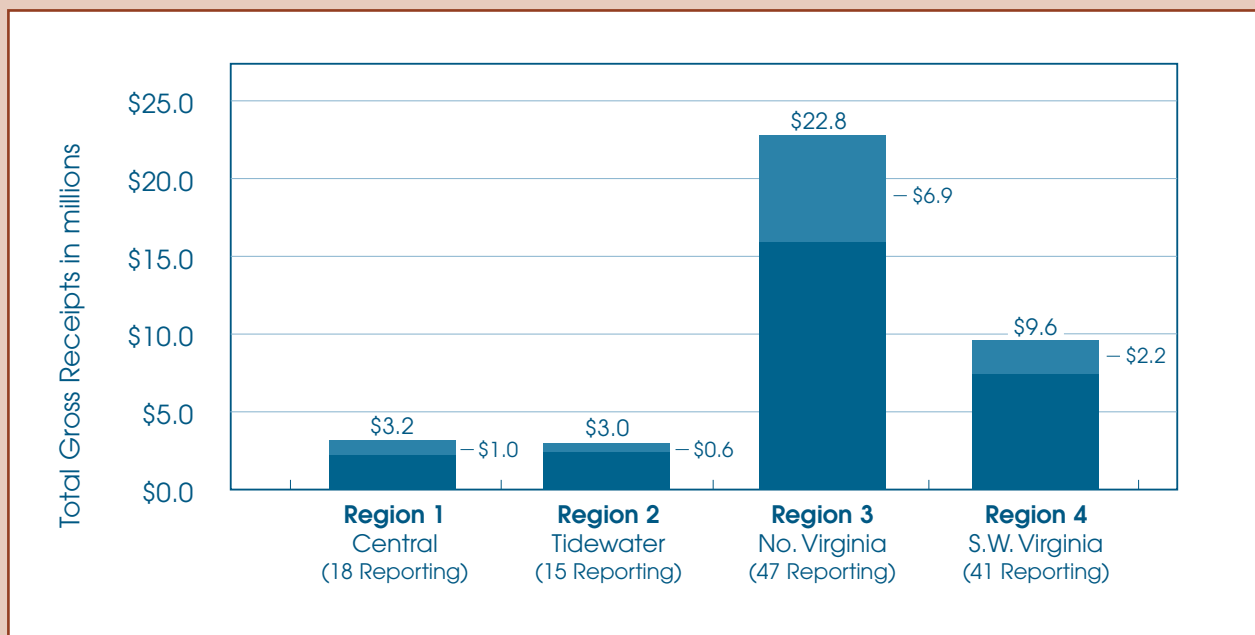
“Other” Organizations (9 Reporting)



What are exempt organizations and how much charitable gaming do they do?

Volunteer Fire Departments and Rescue Squads, though exempt from most procedural requirements, must file a notification of intention to game and obtain an authorization to game each year they do charitable gaming. At the end of the year each such organization doing charitable gaming must file a financial resolution reporting the total gross receipts and total charitable use of proceeds. These exempt organizations are not required to file detailed financial reports. Consequently, except for the data on this page, this annual report's cumulative data and analysis do not include the exempt organizations' gross receipts or charitable use of proceeds information. In gaming year 1999 the exempt volunteer fire departments and rescue squads received a total of \$38.5 million in gross receipts from charitable gaming and disbursed a total of \$10.6 million for charitable purposes. The regional totals varied greatly.

Exempt Organizations (Volunteer Fire Departments and Rescue Squads)



■ Charitable Use of Proceeds

Other Exemptions:

Non-profit organizations that have anticipated annual gross receipts of \$25,000 or less from charitable gaming do not have to obtain permits or file any financial reports with the Commission. Consequently, no data is available for such charitable gaming activity.

How does the Commission assist organizations that conduct charitable gaming?

The Charitable Gaming Commission regularly conducts sessions to train the volunteers in the charitable gaming organizations on properly conducting their games, protecting themselves from fraud, theft and embezzlement, and maximizing



the profits from their hard work. In 1999 the Commission conducted two sets of training courses, workshops for the non-exempt organizations and symposiums for the exempt organizations, the volunteer fire departments and rescue squads.

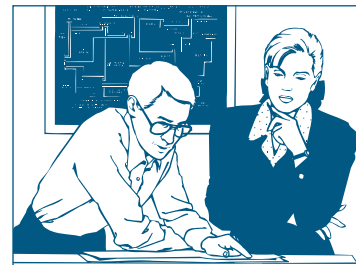
In the Summer of 1999, the Commission conducted nine gaming workshops at various community colleges around the Commonwealth. Two hundred fifty volunteers from non-exempt organizations attended at least one of these workshops.

In the Fall of 1999, the Commission held seven symposiums for the volunteer fire departments and rescue squads at various fire houses and rescue squad halls around the state. This was the first time that the Commission had offered training specifically geared to exempt organizations and their volunteers. One hundred twenty-seven volunteers attended the symposiums.

A new feature added this year to the training was a course in avoiding fraud, theft, and embezzlement. Special Agent in Charge Stanley J. Lapekas, head of the Commission's Enforcement Section and a former agent with the Federal Bureau of Investigation, offered a well-received course in crime prevention during both training sessions.

A new revision of the Commission's "Guidelines for Permitted Use of Charitable Gaming Proceeds" was published to give better guidance to organizations about the appropriate expenditures of funds necessary to meet the minimum required charitable use of their proceeds. In addition, the Commission published a newsletter that was sent to all organizations and maintained an Internet web site containing forms and information that could be easily downloaded.

On several occasion during the year staff members of the Commission traveled to meet with various organizations, and their members, to assist them with problems they were having with their games and to answer questions and offer guidance. These meetings also helped the Commission staff to better understand issues confronting charitable gaming organizations. By working together with the charitable gaming organizations in the Commonwealth the Commission helped assure the continued success of charitable gaming in providing funding for worthwhile activities in communities throughout the Commonwealth.



How does the Commission safeguard the integrity of Virginia's charitable gaming organizations?

The past twelve months enforcement activities demonstrated that continued vigilance is still necessary to safeguard the Commonwealth's \$324 million cash charitable gaming industry. The agency's experienced team of criminal investigators continued to pursue violators of the public trust in order to enforce the charitable gaming laws of the Commonwealth and protect the integrity of the gaming organizations. The following cases were concluded or initiated this past year:

1998 Cases Concluded in 1999

Hampton—Four landlords of a now defunct bingo parlor, pleaded guilty to one misdemeanor count each of being an accessory after the fact to an illegal gambling operation. Their scheme involved using the gaming permits of charitable organizations to skim proceeds from charitable gaming. They were each sentenced to 12 months in jail, suspended for 3 years of good behavior, and was levied a \$2,500 fine.

Virginia Beach—The bingo manager of a humane society pleaded guilty in February to one count of felony embezzlement. She had embezzled a total of \$9800 over a five-month period during 1997 and 1998 when she served as acting bingo manager. In April, she was sentenced to an eight-year prison term with all but six months suspended.

Virginia Beach—A former bingo manager for a youth organization pleaded guilty to two misdemeanor counts of employing bingo workers for compensation. She was sentenced to six months in jail, suspended, on each charge, and the plea agreement ordered her not to participate in the management of bingo for two years. A few months earlier, she also pleaded guilty in Norfolk to one misdemeanor count of employing bingo workers for compensation. There she was sentenced to six months jail time, suspended, two years of unsupervised probation and is prohibited from participating in charitable gaming for three years.

Abingdon—Two Tennessee men pleaded guilty and were sentenced in Federal Court for their part in a scheme to manage, operate, and conduct three illegal bingo operations in Abingdon and Scott County. The first, who pleaded guilty to one count of syndicated gambling and one count of money laundering, was sentenced to sixty months in prison and fined \$2,500. The second, who pleaded guilty to one count of syndicated gambling and one count of tax fraud, was sentenced to twelve months in prison and fined \$3,000. Both men previously agreed to substantial asset forfeitures and were banned indefinitely from future participation in charitable gaming operations.



New Cases Commenced in 1999

Amherst County—A former bingo manager and an assistant bingo manager for a fraternal organization pleaded guilty to one count each of embezzlement. The former manager received a five year suspended sentence with ten years probation. Two years of the probation will be supervised with the remaining eight years, unsupervised. His sentence also included responsibility for \$12,000 restitution, to be paid at a minimum of \$1,000 per year and court costs. The former assistant manager was sentenced to a three year suspended sentence, with five years probation. Two years of the probation will be supervised and the remaining three years, unsupervised. He is responsible for \$5,600 of restitution, a minimum of \$1,000 paid annually, and court costs. A third defendant, who had admitted to embezzling between \$15,000-\$20,000 through the sale of instant bingo, later pleaded guilty as well to one count of embezzlement, and will be sentenced in April 2000.

Falls Church—A former bingo manager of a fraternal police organization was convicted on three felony counts of embezzlement. Having pleaded guilty to the theft of approximately \$16,000 from the charitable bingo receipts, she was sentenced to six years in prison, with five and one-half years suspended, and was ordered to pay \$50,000 in restitution to the organization. Upon her release from jail, she will serve six years of supervised probation.

Manassas—A former thirty-four-year veteran and past president of a local fire department plead guilty to two counts of felony embezzlement of bingo proceeds. For his crimes, he was sentenced to four years in prison, all suspended, plus a total of 400 hours of community service, 10 years' probation and the compensation of court costs. He had previously made full restitution for more than \$20,000 that he had pilfered in small denominations from the bingo cash drawer over a one-year period.

Manassas Park—The president of a small fire department pleaded guilty to one count of felony embezzlement. After having repaid a majority of the \$9800 embezzled total and agreeing to make full restitution, she was sentenced to three years probation and ordered to complete 100 hours of community service. She had stolen the funds over a five-month period.

Lynchburg—The former bingo manager and lodge governor and the former bookkeeper of a fraternal lodge were indicted on one felony count each of embezzlement. The charges against the pair stem from the disappearance of \$214,559 in gaming funds over a four-year period. The two are currently awaiting trial.

What is the amount of charitable gaming going on in the various regions of the Commonwealth?

While the four regions of the state have approximately the same number of charitable gaming organizations, the gross receipts from charitable gaming and the amount of total charitable gaming moneys going for charitable uses varies by region. The following chart illustrates the amount of charitable gaming done by both non-exempt and exempt organizations and exempt organizations, broken down by region.

Non-Exempt Organizations	Gross Receipts	Charitable Use of Proceeds
Region 1 - Central Virginia	\$51,549,907.22	\$8,049,506.98
Region 2 - Tidewater	\$91,852,747.83	\$10,871,616.44
Region 3 - Northern Virginia	\$89,148,662.77	\$12,333,346.39
Region 4 - Southwest	\$53,475,230.24	\$6,860,507.63
Total - Non-Exempt	\$286,026,548.06	\$38,114,977.44
Exempt Organizations	Gross Receipts	Charitable Use of Proceeds
Region 1 - Central Virginia	\$3,184,747.32	\$1,014,059.59
Region 2 - Tidewater	\$2,936,854.93	\$555,499.68
Region 3 - Northern Virginia	\$22,754,327.61	\$6,864,894.14
Region 4 - Southwest	\$9,587,888.88	\$2,157,441.03
Total - Exempt	\$38,463,818.74	\$10,591,894.44
Grand Total	\$324,490,366.80	\$48,706,871.88

A note from the Charitable Gaming Commission staff.

As charitable gaming in the Commonwealth increases and prospers under the regulatory watchfulness of the Charitable Gaming Commission, we of the Commission staff are dedicated to serving the people of the Commonwealth. We are committed to making sure that charitable gaming produces the maximum benefit for the charitable organizations around the state and that the gaming organizations are free from fraud, theft, and embezzlement.

1999 Financial Statement

The following financial statement of the Charitable Gaming Commission from the period July 1, 1998 to June 30, 1999 is provided in accordance with 18.2-340.18 (9) of the Code of Virginia.

Total Revenues	\$1,882,679
Agency Expenditures	\$2,025,344
Transfers to the General Fund*	7,184
Total Expenditures	\$2,032,528
Operating Deficit for 1999	(\$149,849)

** Transfer of agency funds were made to the General Fund for a telephone rate increase (\$2,977), for an increase in the employees health insurance reserve (\$3,743) and for a charge by the Department of Personnel and Training (\$464).*

Legislative Recommendations

The Commission is in the process of studying and preparing revisions to the agency's regulations. It may be desirable to have certain legislative amendments to clarify code sections that may be identified during the regulatory review process as needing some clarification. However, at the present time there appears to be little need for any major legislative changes in the charitable gaming statutes in the Commonwealth. The continued success of the Charitable Gaming Commission in increasing the amount of charitable gaming funds going to charitable activities and in combating the level of fraud, theft, and embezzlement indicates that the present laws governing charitable gaming, for the most part, are working as intended.



Virginia Charitable Gaming Commission

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